



California State Teachers' Retirement System



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

November 2, 2022

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

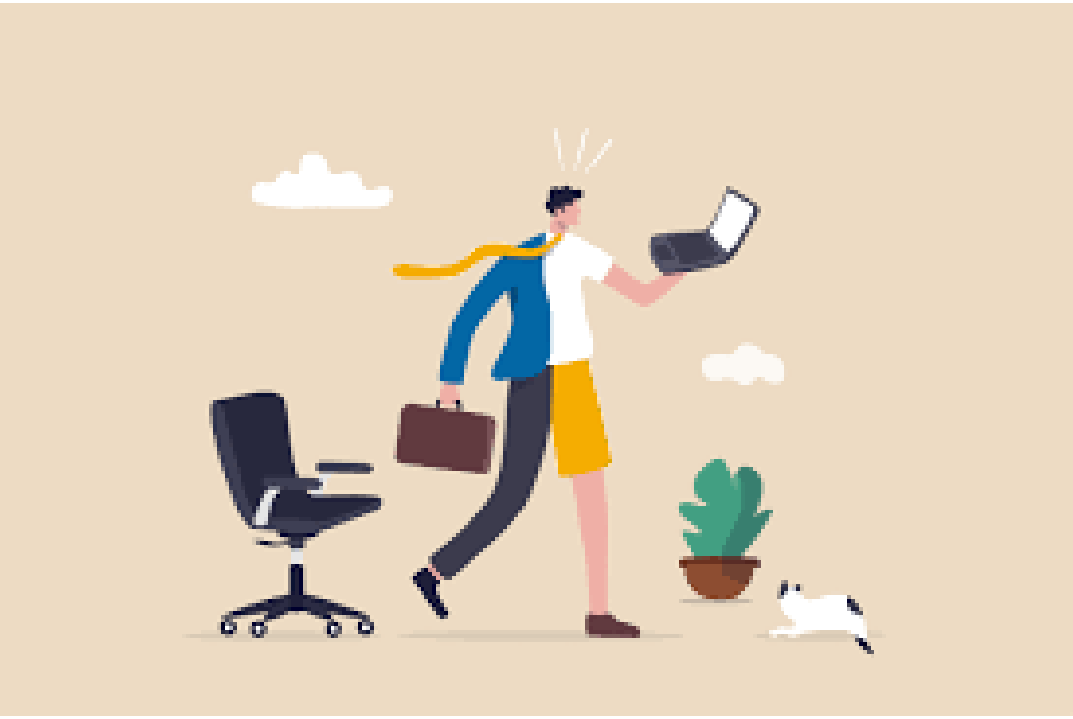
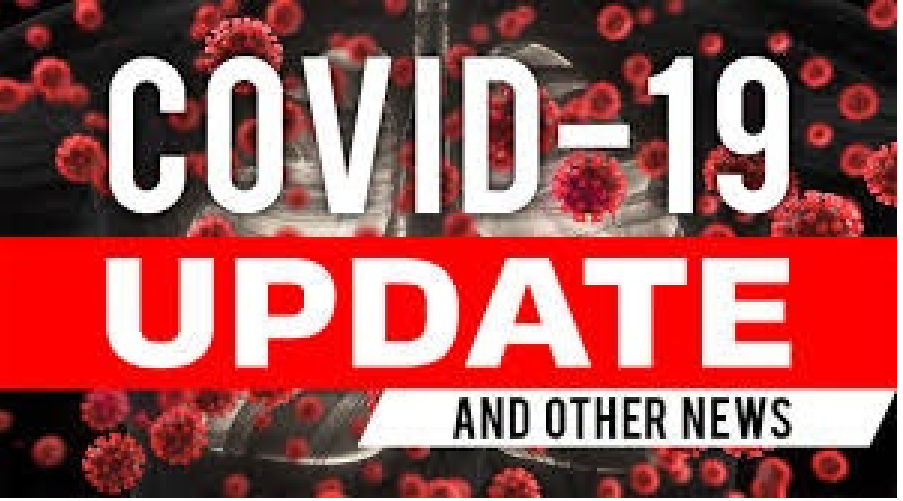
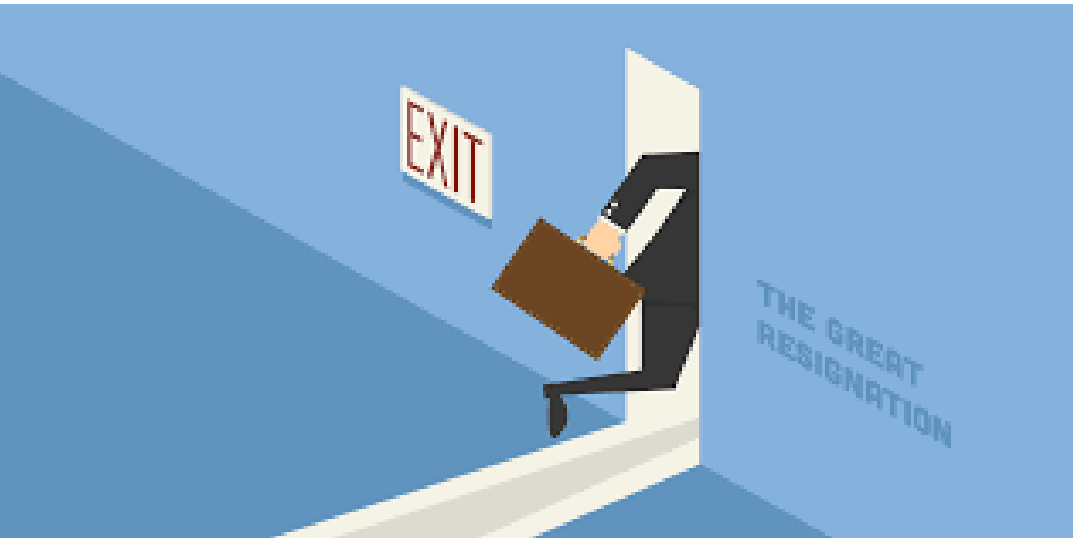
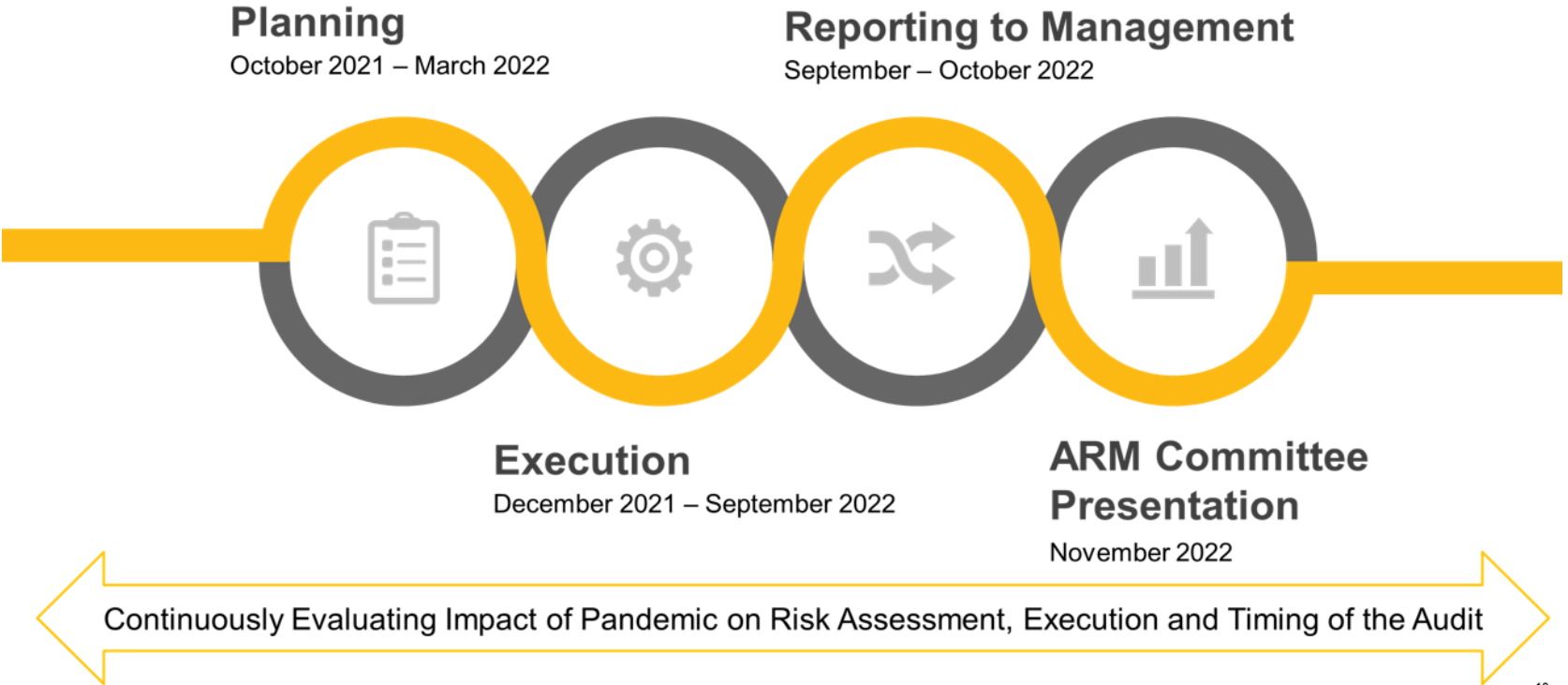


Cassandra Taylor, CISA
IT Assurance
Senior Manager



Hamzeh Qattan, CPA
Audit Manager

FY 2021-2022 Challenges



California State Teachers' Retirement System

Basic Financial Statements

1

Independent Auditor's
Report

2

Required
Communications to
Those Charged with
Governance

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

Overview

Independent Auditor's Report

Audit of the California State Teachers' Retirement System as of and for the year ended June 30, 2022

- 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



ARM Item 4a
Att. 1, Page 3

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, 2022, 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, 2022, 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

ARM Item 4a
Att. 1, Page 3

Emphasis of Matters

Net Pension Liability of Employers and Nonemployer Contributing Entity

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2021, the System's independent actuaries determined that, at June 30, 2022, the value of the State Teachers' Retirement Plan (STRP) total pension liability exceeded the STRP fiduciary net position by \$69.5 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 opinion is not modified with respect to this matter.

Components of the NPL – STRP

(dollars in millions)

Total pension liability	\$369,542
Less: STRP fiduciary net position	300,056
NPL of employers and the State of California	\$69,486
STRP fiduciary net position as a % of the total pension liability	81.2%

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, 2021, and rolling forward the total pension liability to June 30, 2022. Significant actuarial methods and assumptions used in the financial reporting actuarial valuation to determine the total pension liability as of June 30, 2022 include:

Valuation date	June 30, 2021
Experience study	July 1, 2015–June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return ¹	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

¹ 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

ARM Item 4a
Att. 1, Page 3

Fair Value of Investments

As described in Notes 5 and 6, the financial statements include investments valued at approximately \$133.3 billion as of June 30, 2022, 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 estimate 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.

Alternative investments							
Debt-privately held	3,028,383	–	–	–	–	–	3,028,383
Equity-privately held	78,834,814	–	–	–	–	–	78,834,814
Real estate-directly held	36,118,809	–	–	–	–	–	36,118,809
Real estate-non-directly held	15,270,285	–	–	–	–	–	15,270,285
Total alternative investments	133,252,291	–	–	–	–	–	133,252,291

Independent Auditor's Report – Management's Responsibility



ARM Item 4a
Att. 1, Page 4

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

ARM Item 4a
Att. 1, Page 4

Auditor's Responsibilities 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 judgment, 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

ARM Item 4a
Att. 2, Page 1-4

- Auditor's Responsibilities under GAAS and GAGAS
- Planned Scope and Timing of the Audit
 - Key considerations for FY 2021/2022
 - 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

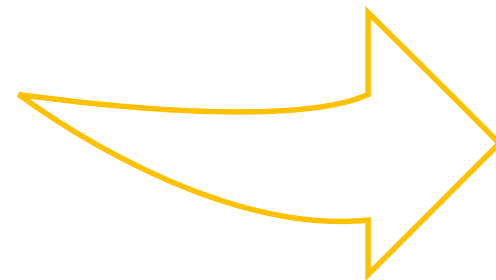
Required Communications to Those Charged with Governance

Independent Auditor's Report on Internal Controls over Financial Reporting

ARM Item 5a
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



ARM Item 4a
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

2

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 - 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) – State Teachers’ Retirement Plan (con’t)



ARM Item 4b
Att. 1, Page 51

State Teachers’ Retirement Plan

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

For the fiscal year ended June 30, 2022

Schedule A (continued)

Employer reporting number	Employer name	CalSTRS-calculated employer contribution	SB 90 contributions allocated to employer ¹	Total calculated and allocated contributions	Employer proportionate share of total calculated and allocated contributions
	Total CalSTRS-calculated employer contributions	\$6,539,570,107	\$841,273,644	\$7,380,843,751	66.631%
	State of California contributions (nonemployer contributing entity) ²			3,696,297,698	33.369%
	Total employer and state contributions included in the proportionate share calculation			11,077,141,449	100.000%
	Plus: Fiscal year 2021-22 supplemental state contribution (AB 128) ^{2,3}			583,666,226	
	Plus: Contributions for separately financed liabilities of individual employers ⁴			8,138,180	
	Less: Fiscal year 2018-19 supplemental state contribution (SB 90) applied in FY 2021-22 ⁵			841,273,644	
	Less: Employer contributions redirected to fund the Medicare Premium Payment Program			26,351,889	
	Total employer and state contributions in the statement of changes in fiduciary net position⁶			\$10,801,320,322	

Scope of Services

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



ARM Item 5b
Att. 1, Page 52

State Teachers’ Retirement Plan Schedule of aggregate pension amounts for employers and nonemployer contributing entity

As of and for the year ended June 30, 2022 Schedule B¹
(dollars in millions)

Change in net pension liability (NPL) recognized immediately in pension expense	
Change in NPL	
Total net pension liability as of June 30, 2022	\$69,486
Total net pension liability as of June 30, 2021	45,508
Total change in NPL	23,978

Independent Auditor's Report Other Pension Information (OPI) (con't)



ARM Item 5b
Att. 1, Page 4-6

- 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, 2022
 - Total net pension liability as of June 30, 2022
 - 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)



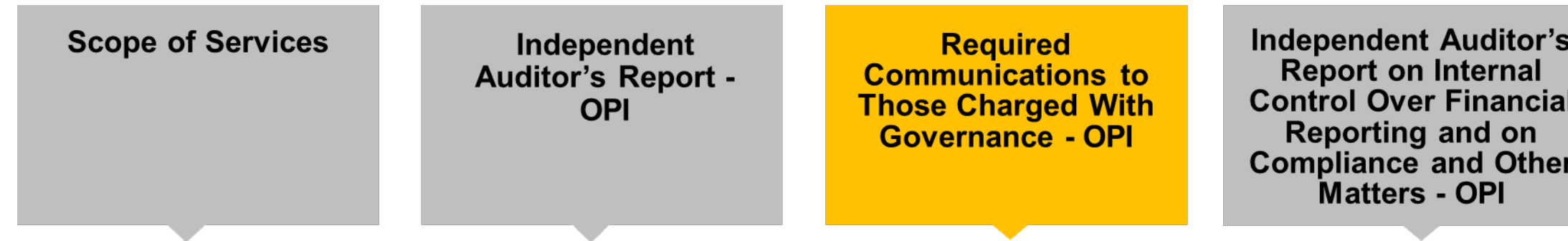
ARM Item 5b
Att. 1, Page 4

- Emphasis of Matter paragraph

Emphasis of Matter

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2021, the System's independent actuaries determined that, at June 30, 2022, the value of the State Teachers' Retirement Plan (STRP) total pension liability exceeded the STRP fiduciary net position by \$69.5 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)

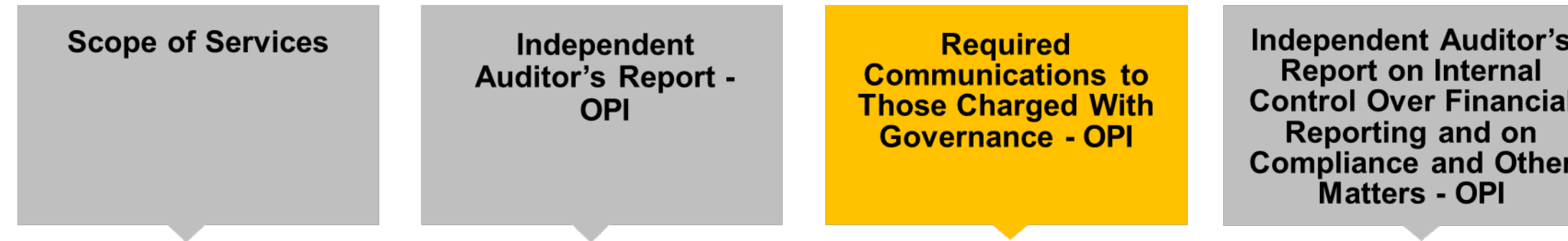


ARM Item 4b

Att. 2, Page 1-4

- 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, 2022
 - 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)



ARM Item 4b
Att. 2, Page 4-7

- 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



ARM Item 4b 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

Kevin W. Smith

214.777.5208

Kevin.W.Smith@crowe.com

Jen Aras

916.492.5119

Jen.Aras@crowe.com

"Crowe" is the brand name under which the member firms of Crowe Global operate and provide professional services, and those firms together form the Crowe Global network of independent audit, tax, and consulting firms. Crowe may be used to refer to individual firms, to several such firms, or to all firms within the Crowe Global network. The Crowe Horwath Global Risk Consulting entities, Crowe Healthcare Risk Consulting LLC, and our affiliate in Grand Cayman are subsidiaries of Crowe LLP. Crowe LLP is an Indiana limited liability partnership and the U.S member firm of Crowe Global. Services to clients are provided by the individual member firms of Crowe Global, but Crowe Global itself is a Swiss entity that does not provide services to clients. Each member firm is a separate legal entity responsible only for its own acts and omissions and not those of any other Crowe Global network firm or other party. Visit www.crowe.com/disclosure for more information about Crowe LLP, its subsidiaries, and Crowe Global. The information in this document is not – and is not intended to be – audit, tax, accounting, advisory, risk, performance, consulting, business, financial, investment, legal, or other professional advice. Some firm services may not be available to attest clients. The information is general in nature, based on existing authorities, and is subject to change. The information is not a substitute for professional advice or services, and you should consult a qualified professional adviser before taking any action based on the information. Crowe is not responsible for any loss incurred by any person who relies on the information discussed in this document. Visit www.crowe.com/disclosure for more information about Crowe LLP, its subsidiaries, and Crowe Global. © 2022 Crowe LLP.