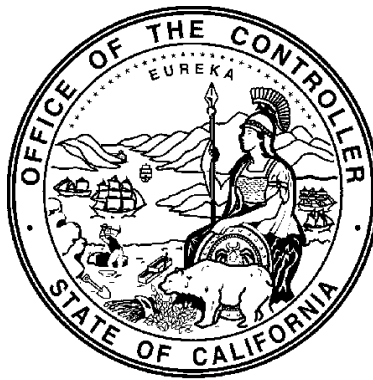


STATE OF CALIFORNIA

State Miscellaneous Plan

Schedule of Pensionable Compensation and Schedule of Pension Amounts

For the Fiscal Year Ended
June 30, 2015



*Prepared by
The Office of the State Controller*

BETTY T. YEE
California State Controller

Contents

INTRODUCTORY SECTION

California State Controller's Transmittal Letter	iii
--	-----

INDEPENDENT AUDITOR'S OPINION

Independent Auditor's Report	2
------------------------------------	---

SCHEDULES AND NOTES

SCHEDULES

Schedule of Pensionable Compensation	6
--	---

Schedule of Pension Amounts	6
-----------------------------------	---

NOTES TO THE SCHEDULES

Notes to the Schedules	8
------------------------------	---

Introductory Section



Introductory



BETTY T. YEE
California State Controller

September 23, 2016

To State Entities and their External Auditors:

I am pleased to submit the Report on the *Schedule of Pensionable Compensation and the Schedule of Pension Amounts* (Schedules) for the State Miscellaneous plan administered by the California Public Employees' Retirement System for the fiscal year ended June 30, 2015. This report provides certain state entities and their external auditors with supporting information related to Governmental Accounting Standards Board, Statement No. 68 (GASB No. 68), *Accounting and Financial Reporting for Pensions*.

The State Controller's Office is responsible for the preparation and fair presentation of the Schedules in accordance with accounting principles generally accepted in the United States of America. The report provides users with reasonable assurance that the pension information presented in the Schedules is fairly stated in accordance with GASB No. 68.

The information contained in this report is solely for the use of certain state entities and their external auditors and is not intended to be and should not be used by anyone other than those specified parties. However, under the Brown Act, the report is a matter of public record.

Sincerely,

Original signed by:

BETTY T. YEE

Independent Auditor's Opinion

Independent Auditor's Report

THE LEGISLATURE OF THE STATE OF CALIFORNIA
AND THE CALIFORNIA STATE CONTROLLER'S OFFICE

We have audited the accompanying Schedule of Pensionable Compensation for the State Miscellaneous Plan (plan) administered by the California Public Employees' Retirement System, for the year ended June 30, 2015. We have also audited the captions for the plan titled net pension liability, as of June 30, 2014; net pension liability, as of June 30, 2015; total deferred outflows of resources, total deferred inflows of resources, and total pension expense included in the accompanying Schedule of Pension Amounts as of and for the year ended June 30, 2015, and the related notes to the schedules.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

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

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the pensionable compensation for the State Miscellaneous Plan for the year ended June 30, 2015; net pension liability, as of June 30, 2014; net pension liability, as of June 30, 2015; total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the State Miscellaneous Plan as of and for the year ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the financial statements of the State of California as of and for the year ended June 30, 2015, and our report thereon, dated March 11, 2016, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the California State Controller's Office, the California Public Employees' Retirement System, State Miscellaneous Plan employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2016 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2015. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

A handwritten signature in black ink, reading "John F. Collins II". The signature is fluid and cursive, with a long horizontal line extending from the end.

JOHN F. COLLINS II, CPA
Deputy State Auditor

September 21, 2016

Schedules and Notes

Schedules



Schedule of Pensionable Compensation

For the Year Ended June 30, 2015

Description	Amount
Pensionable Compensation	\$ 10,640,883,629

Schedule of Pension Amounts

As of and For the Year Ended June 30, 2015

(amounts in thousands)

Description	Amount
Net Pension Liability, as of June 30, 2014	\$ 23,808,612
Net Pension Liability, as of June 30, 2015	28,241,942
Increase (decrease) in the Net Pension Liability	<u>\$ 4,433,330</u>
Deferred Outflows of Resources: ^{1, 2}	
Differences between expected and actual experience ³	\$ 515,782
Changes in assumptions	—
Differences between projected and actual earnings on pension plan investments ⁴	—
Total Deferred Outflows of Resources	<u>\$ 515,782</u>
Deferred Inflows of Resources: ²	
Differences between expected and actual experience ³	\$ —
Changes in assumptions	—
Differences between projected and actual earnings on pension plan investments ⁴	616,506
Total Deferred Inflows of Resources	<u>\$ 616,506</u>
Total Pension Expense	<u>\$ 2,441,090</u>

¹ This schedule does not include deferred outflows of resources for employer contributions made subsequent to the measurement date.

² This schedule does not include deferred outflows and inflows of resources for changes in the employers' proportionate share of pensionable compensation made subsequent to the measurement date.

³ Deferred outflows and inflows of resources related to differences between expected and actual experience are amortized over a closed period equal to the average expected remaining service lives of all plan members, which is 3.9 years.

⁴ Deferred outflows and inflows of resources related to differences between projected and actual earnings on pension plan investments are netted and amortized over a closed 5-year period.

The accompanying notes are an integral part of the Schedules.

Notes to the Schedules

Notes to the Schedules

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Pensionable Compensation and the Schedule of Pension Amounts (Schedules) present selected information for the State Miscellaneous Plan (Plan), administered by California Public Employees' Retirement System (CalPERS). Accordingly, the information contained in the Schedules does not purport to be a complete presentation of the Fiduciary Net Position or the changes in Fiduciary Net Position. The Schedules are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Such preparation requires the California State Controller's Office to make a number of estimates and assumptions related to the reported amounts and disclosures. Due to the inherent nature of these estimates, actual results could differ.

The Schedule of Pension Amounts does not include the following entity-specific pension amounts that may need to be recognized in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68: (a) deferred outflows of resources for employer contributions made subsequent to the measurement date, and (b) deferred outflows and inflows of resources for changes in the employers' proportionate share of pensionable compensation made subsequent to the measurement date.

NOTE 2: PENSIONABLE COMPENSATION

The Schedule of Pensionable Compensation is prepared to provide state entities with total pensionable compensation. This amount was used to calculate state entities' proportionate share of pension amounts. The Schedule of Pensionable Compensation and the Schedule of Pension Amounts have the same measurement period of July 1, 2014, through June 30, 2015.

NOTE 3: NET PENSION LIABILITY

The following table shows the components of the net pension liability as of June 30, 2015 (amounts in thousands):

Description	Amount
Total Pension Liability	\$ 96,332,123
Less: Fiduciary Net Position	(68,090,181)
Net Pension Liability	\$ 28,241,942

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS reports at www.CalPERS.ca.gov.

NOTE 4: ACTUARIAL METHODS AND ASSUMPTIONS

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Valuation Date:	June 30, 2014
Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate:	7.65%
Inflation:	2.75%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.65% Net of Pension Plan Investment Expenses, but without reduction for Administrative Expenses, includes Inflation
Mortality Rate Table:	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase:	Contract COLA up to 2.75% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.75% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 CalPERS Experience Study and Review of Actuarial Assumptions report (Experience Study).

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained from CalPERS' website.

NOTE 5: DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested the State Miscellaneous Plan (Plan) as it was identified as one of the plans that would most likely result in a discount rate that would differ from the actuarially assumed discount rate. Based on the testing, the Plan does not exhaust assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to the Plan. The stress test result is presented in the GASB Crossover Testing Report, which may be obtained from CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one

calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS' Board of Administration effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	51.0 %	5.25 %	5.71 %
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

The Real Return Years 1-10 used an expected inflation rate of 2.5% for this period. The Real Return Years 11+ used an expected inflation rate of 3.0% for this period.

NOTE 6: PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The table below presents deferred outflows and inflows of resources as of June 30, 2015. Deferred outflows of resources are recognized for the difference between expected and actual experience. Deferred outflows of resources due to employer contributions made subsequent to the measurement date are not presented in the table below. Net deferred inflows of resources are recognized for the aggregate difference (positive and negative) between projected and actual earnings on pension plan investments arising in different measurement periods. Deferred outflows and inflows of resources for changes in the employers' proportionate share of pensionable compensation made subsequent to the measurement date are not presented in the table below (amounts in thousands):

Description	Amount
Deferred Outflows of Resources	\$ 515,782
Deferred Inflows of Resources	\$ 616,506

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as either a debit or a (credit) in the future as follows (amounts in thousands):

<u>Measurement Periods</u>	<u>Amount</u>
Year Ended June 30,	
2016	\$ (270,130)
2017	(270,130)
2018	(287,915)
2019	727,451
2020	—
Thereafter	—

For the fiscal year ended June 30, 2015, the amounts recognized as components of pension expense are as follows (amounts in thousands):

<u>Description</u>	<u>Amount</u>
Service Cost	\$ 1,576,695
Interest on the Total Pension Liability	6,970,837
Changes of Benefit Terms	—
Recognized Differences between Expected and Actual Experience	177,856
Recognized Changes of Assumptions	—
Employee Contributions	(771,046)
Plan to Plan Resource Movement	354
Projected Earnings on Pension Plan Investments	(5,142,298)
Recognized Differences between Projected and Actual Earnings on Plan Investments ..	(447,986)
Administrative Expense	76,678
Total Pension Expense/(Income)	\$ 2,441,090

NOTE 7: SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following table presents the net pension liability as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate (amounts in thousands):

	<u>Current Rate -1%</u>	<u>Current Rate (7.65%)</u>	<u>Current Rate +1%</u>
Net Pension Liability/(Asset)	\$ 39,887,881	\$ 28,241,942	\$ 18,471,007

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BETTY T. YEE

Office of California State Controller
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250
(916) 445-2636
www.sco.ca.gov